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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 8546
INFO RUEHFK/AMCONSUL FUKUOKA 8181
RUEHNAG/AMCONSUL NAGOYA 5289
RUEHNH/AMCONSUL NAHA 0525
RUEHOK/AMCONSUL OSAKA KOBE 1994
RUEHKS/AMCONSUL SAPPORO 8680
RUEATRS/TREASURY DEPT WASHDC
RHEHAAA/NSC WASHDC
RUCPDOG/USDOC WASHDC

UNCLAS TOKYO 000025

SENSITIVE
SIPDIS

TREASURY FOR DOHNER, WINSHIP, AND FOSTER
STATE FOR E, EEB AND EAP/J
NSC FOR DANNY RUSSELL AND JIM LOI
STATE PASS TO USTR FOR AUSTR CUTLER, BEEMAN, LEE AND
HOLLOWAY

E.O. 12958: N/A

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SUBJECT: JAPANESE GOVERNMENT PROJECTS 1.4 PERCENT REAL GDP
GROWTH IN FY2010

¶1. (U) The Hatoyama Cabinet approved the GOJ's official economic forecast for FY10 (April 2010 to March 2011) on December 25. The official forecast, prepared by the Cabinet Office and used in the Ministry of Finance's revenue estimates for the FY10 initial budget, projects real GDP growth of 1.4 percent. This would be the first positive growth in three years, predicted on a recovery in both domestic demand (1.1 percentage point (pp) contribution) and external demand (0.4 pp contribution).

¶2. (SBU) The Hatoyama Administration appears to have treated its official forecast in part as a policy target, i.e., it is 0.2 pp more optimistic than the Bank of Japan Policy Board forecast and the private analyst consensus, both of which are 1.2 percent. The official forecast also projects 0.4 percent nominal GDP growth in FY10.

¶3. (U) Looking at individual components, the government projects real private consumption growth will accelerate in FY10, rising 1.0 percent after a 0.6 percent increase in FY09. Both real business investment and real housing investment are estimated to rebound moderately, by 3.1 percent and 4.4 percent respectively. Real exports are projected to increase 8.3 percent while real imports rise 5.2 percent. The combination of a relatively large increase in exports and a relatively small rise in imports results in a 0.4 pp contribution from net exports to overall growth. On the other hand, the government estimates public demand will subtract 0.2 pp from overall growth, as the fading fiscal stimulus and a broader policy shift away from public works spending takes hold.

¶4. (U) The Cabinet Office projects a 0.8 percent decline in the overall CPI in FY10, after an estimated 1.6 percent drop in FY09. This is broadly consistent with the BOJ Policy Board forecast and those of private analysts.

¶5. (U) In releasing the official forecast for FY10, the Cabinet Office also revised its forecast for FY09. The revised FY09 forecast shows real GDP growth contracting 2.6 percent, better than the 3.3 percent decline projected in July. This is in line with the private analyst consensus. Notably, personal consumption growth was revised to 0.6 percent growth from the 0.1 percent decline projected in July.

¶6. (U) GOJ Official Economic Forecast (percent)

| | FY2009 | FY2010 |
|--|--------|--------|
| Nominal GDP | -4.3 | 0.4 |
| Real GDP | -2.6 | 1.4 |
| Domestic Demand (contribution) | -2.2 | 1.1 |
| Private Domestic Demand | -3.2 | 1.3 |
| Real Private Consumption | 0.6 | 1.0 |
| Real Private Housing Investment | -16.9 | 4.4 |
| Real Business Investment | -16.5 | 3.1 |
| Public Domestic Demand | 1.0 | -0.2 |
| External Demand (contribution) | -0.5 | 0.4 |
| Real Exports | -14.4 | 8.3 |
| Real Imports | -11.1 | 5.2 |
| Unemployment Rate | 5.4 | 5.3 |
| Consumer Price Index | -1.6 | -0.8 |
| Corporate Good Price Index | -5.4 | -0.9 |
| Current Account Balance (JPY trillion) | 14.0 | 15.8 |
| (as a percent of nominal GDP) | 3.0 | 3.3 |

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